

CAP 2020 proposal and the Czech farm structure: a need for national adjustments

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Background

- Three issues discussed in the association of CAP reform
 - Uneven distribution of income in favour of large farms (particularly in the context of price support, e.g. Renwick)
 - Uneven distribution of income supports (DP) in favour of large farms (more visible after decoupling) – (e.g. Baldwin 2005, Schmidt et al., 2006)
 - “Social value” of small farms
 - Effort to commercialised them
 - Rural / environmental agent $\leftarrow \rightarrow$ a need to keep them to stay in business (ENRD Conference in Sibiu, 2010).

Objective

- To assess the CAP proposals (2010, 2011) from the point of view of distribution and structural change.
- Three Pillar 1 measures
 - Capping {simple ceiling, progressive capping, subtracting labour costs}
 - Small farms
 - Greening
- How they favour or disfavour small and large farms.

Approach

- **No single approach possible**
 - Excel calculations based on FADN 2009 and FSS 2007
 - A national CGE model
 - A simple GIS analysis
- **Presentation structured along the measures**
- **Results summarised in conclusions**

Direct Payments

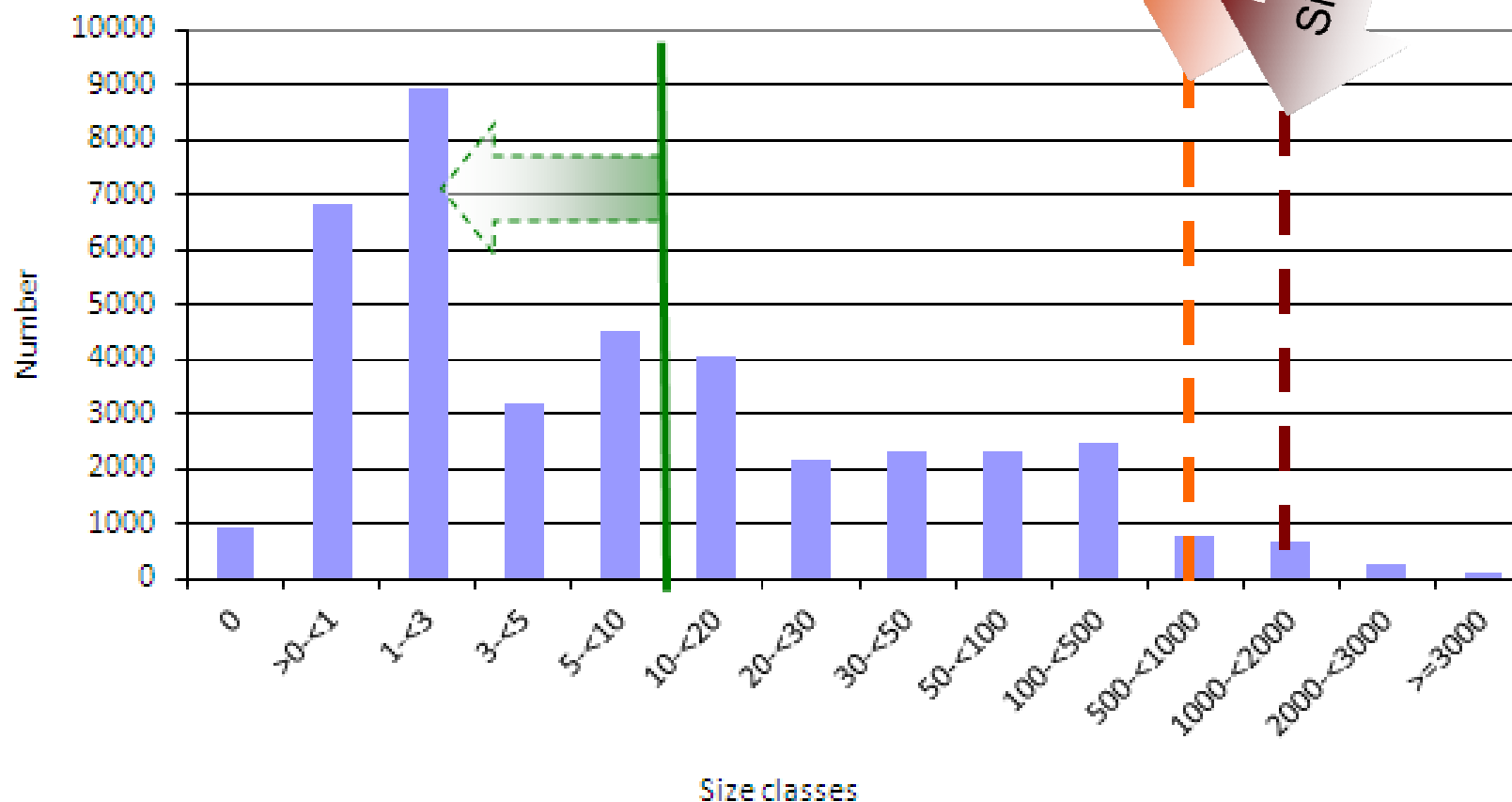
- **Proposals for the redistribution of DP among MS**
 - The current DP of the Czech Republic close to the EU average
 - ➔ unaffected by the alternative proposals
 - The legislative proposal COM(2011) 625/3, EC 2011 – 253 €/ha
 - (more was said in prof. Koester's presentation)

Capping

- Modes – combinations of the following conditions
- Cond1:
 - Simple ceiling (€300,000)
 - Progressive capping starting €150000
- Cond2:
 - Subtracting or not labour costs
- Cond3:
 - Applied to the whole DP
 - Applied only to the basic income support

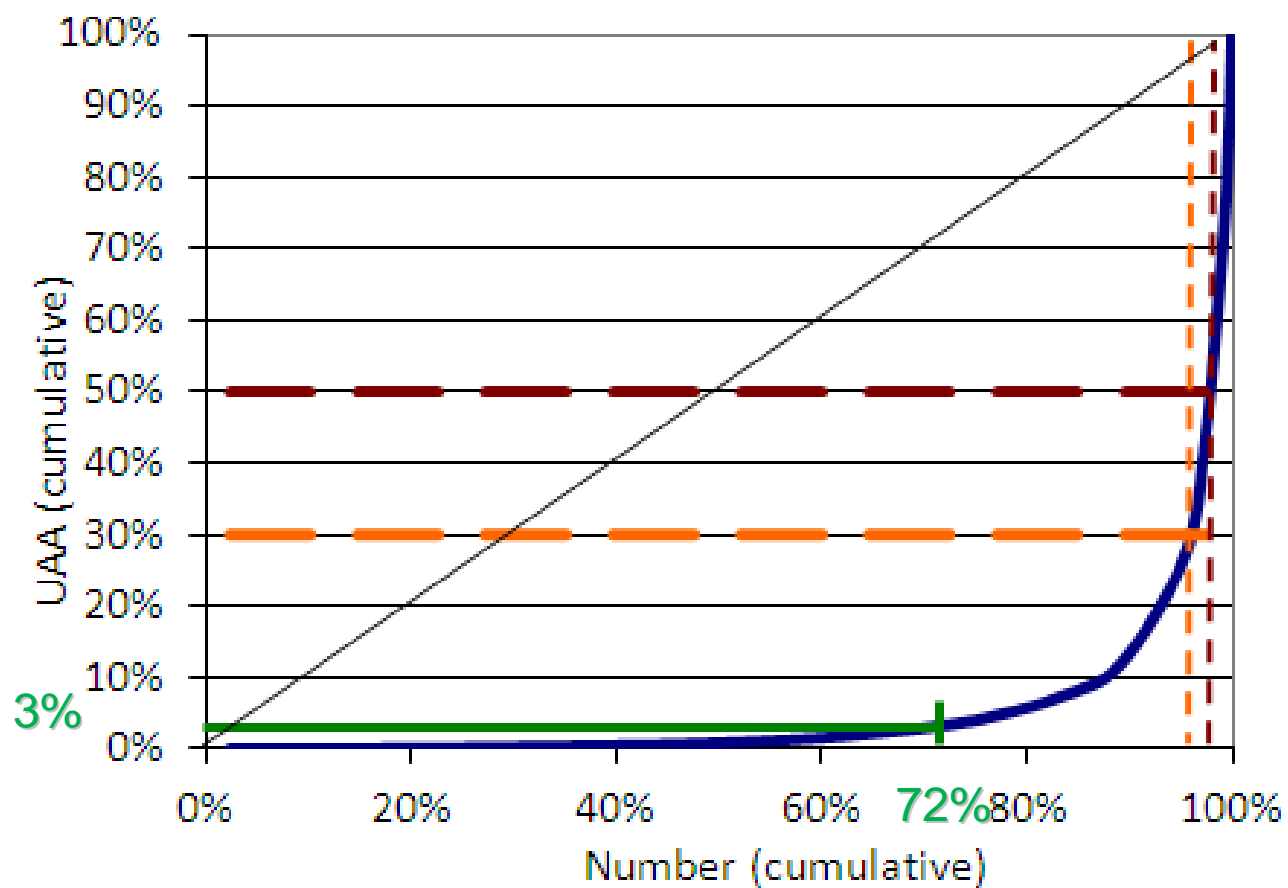
Farm structure

Distribution of farms by UAA



Farm structure

Distribution of land among farms Gini coef. = .89



Size groups

Direct payment limit	After which cuts by	Farm size limits for capping	
		Full direct payments	Basic direct payments
		€ 253	€ 177
€ 150 000	20%	593	847
€ 200 000	40%	840	1200
€ 250 000	70%	1169	1670
€ 300 000	100%	1828	2612

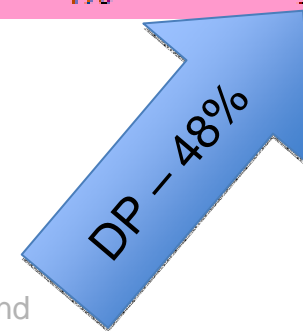
- Threshold payments varied in the course of the discussion
- We selected clusters
 - <400 ha
 - 400-800 ha
 - 800-1200 ha
 - >1200 ha [simple ceiling € 300 000]

Results - fixed structure

Scenario	DP rate option	Farms < 400 ha	400 - 800 ha	800 - 1200 ha	Farms >1200 ha	Average cut
Progressive Capping	Full Rate (€253/ha)	0%	0%	-12%	-48%	-25%
	Basic Rate (€177/ha)	0%	0%	-2%	-22%	-11%
Simple Ceiling	Full Rate (€253/ha)	0%	0%	0%	-44%	-22%
	Basic Rate (€177/ha)	0%	0%	0%	-14%	-7%
Progressive Capping with Labour Cost Subtr.	Full Rate (€253/ha)	0%	0%	0%	0% / -13% for beef cattle	0%
	Basic Rate (€177/ha)	0%	0%	0%	0%	0%

Results – fixed structure

NVA at fc	S1a				
	do 400 ha	400 - 800 ha	800 - 1200 ha	nad 1200 ha	Průměr
Field crops	0%	0%	-4%	-17%	-9%
Horticulture	0%				0%
Wine	0%				0%
Fruit production	0%				0%
Milk	0%	0%	-4%	-10%	-4%
Other Grazing Livestock	0%	0%	-3%	-10%	-2%
Granivores	0%				0%
Mixed	0%	0%	-4%	-15%	-11%
Average	0%	0%	-4%	-16%	-8%



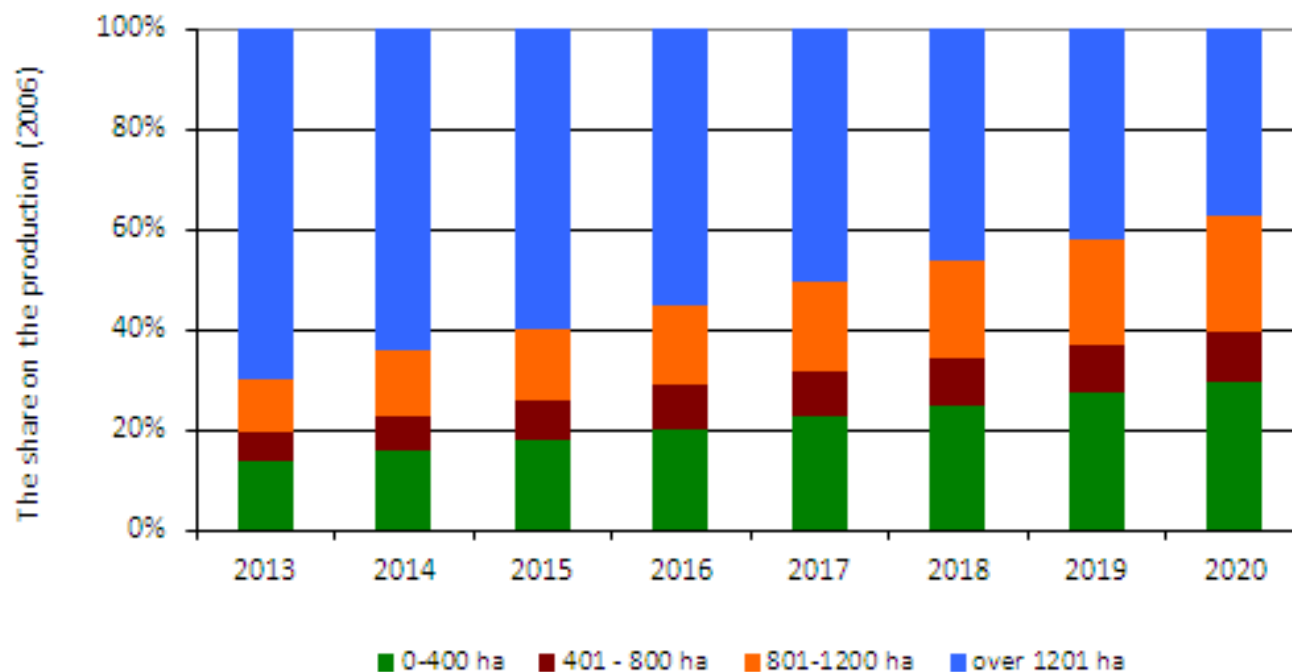
Considering structural adjustment

- {although the proposal would like to ban it}
- A model needed
 - The national CGE (because we had it)
 - Small open economy (very similar to IFPRI standard)
 - Dynamic
- We replaced the agr commodity sectors by the mentioned size classes-sectors
 - using FADN and FSS 2007
- To get structural change area DP are coupled
 - The model does it in two ways: i) land subsidy ii) production subsidies
- Classes grow or contract, but we assume that the farm size is constant (the underlying production function must exhibit constant return to scale - except for farms in the category of largest farms.

Progressive capping - structural change

Full DP

Farm structure development

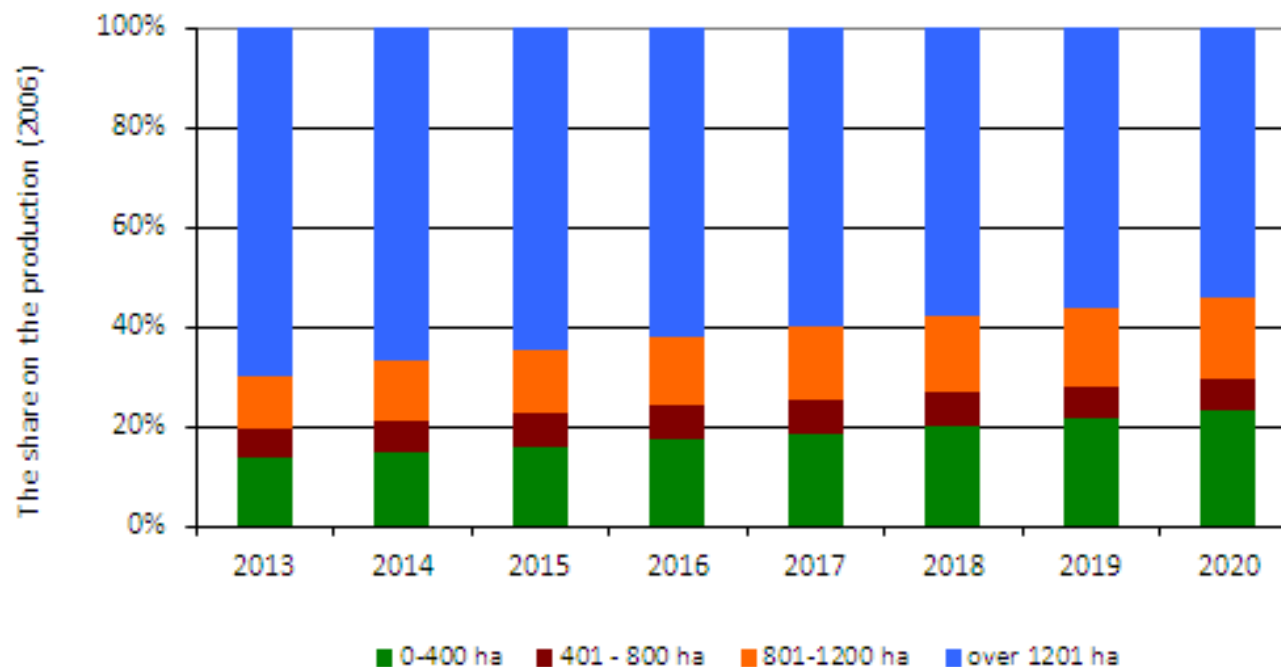


- Dramatic increase of the categories 800-1200 ha and <400 ha
- Dramatic decline of the category >1200 ha

Progressive capping - structural change

Basic DP

Farm structure development

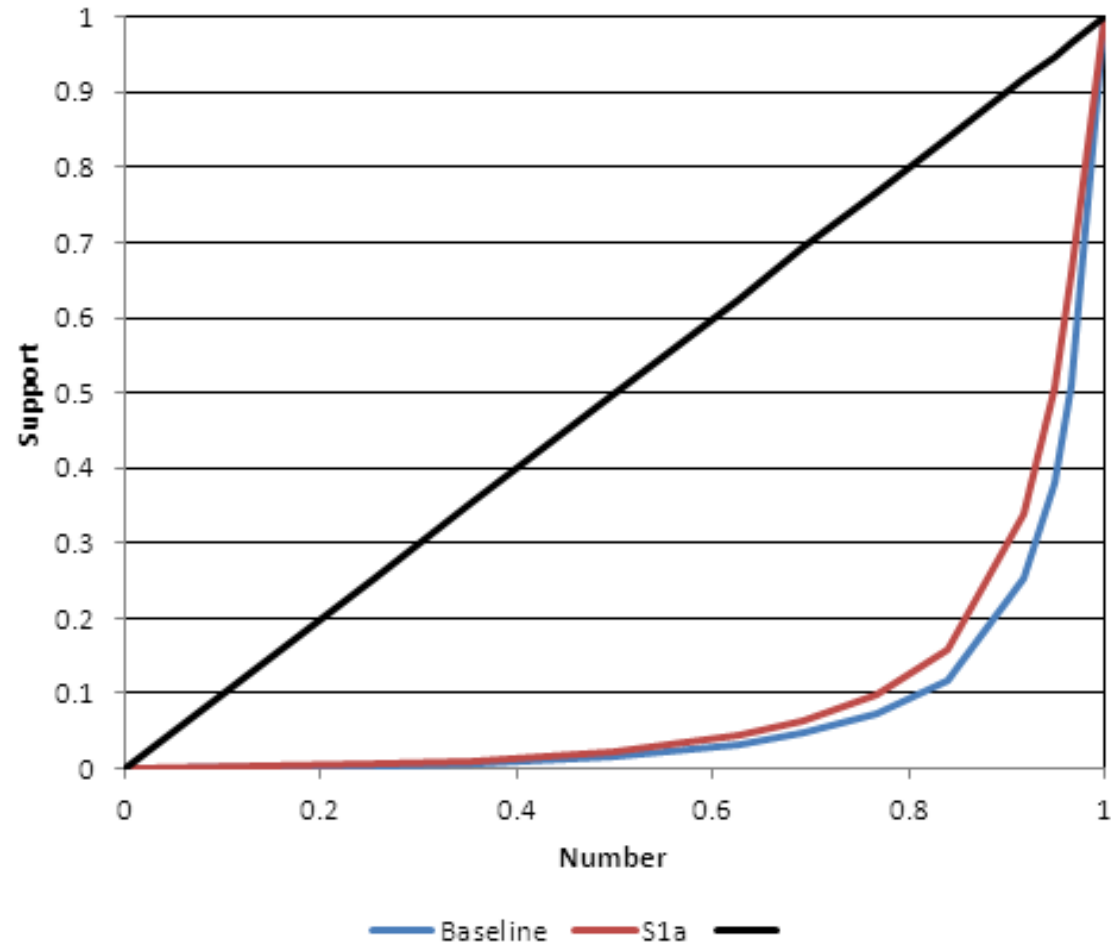


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Inequality reduction by capping

Area DP

Gini coef. reduction: -4.7%



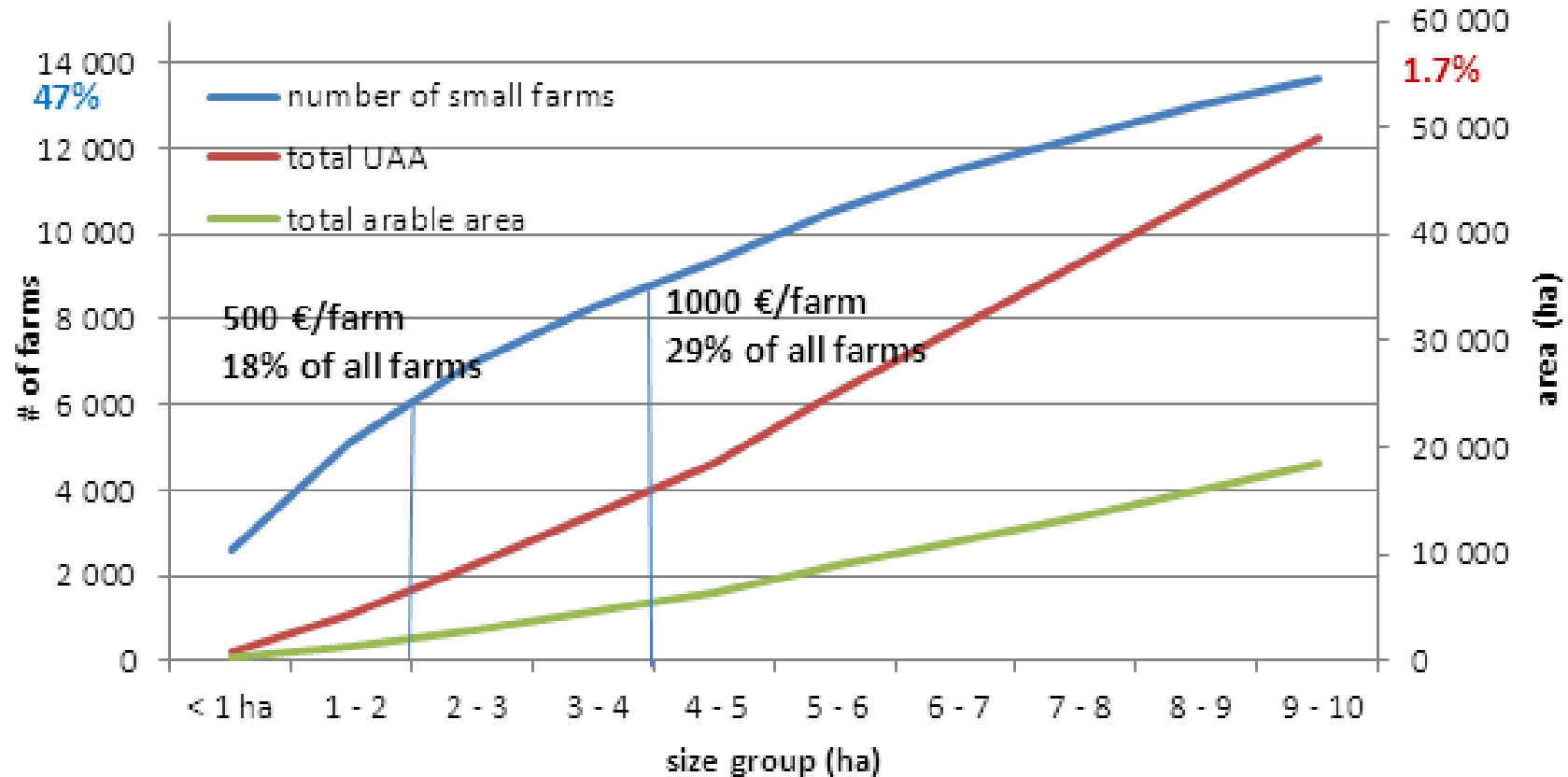
Economic effects

- Overall economic loss comparing to the baseline (avg. over the programme period)
- Agricultural output, GVA **- 6%**
- GDP – 0.15%
- A slight increase of the price level (0.15%)

Small farms

- The preamble (38) of the regulation proposal COM(2011) 625/3 (EC 2011)
 - A simple and specific scheme for small farms should be put in place in order to reduce the administrative costs linked to the management and control of direct support.
- The maximum payment limit € 1000 per farm (Art. 49) → holders up to 3.9 ha will take part [perhaps up to 5 ha will find it interesting].
 - 29% of all registered farms
 - only a negligible share on UAA (0.3%)
 - 0.5% of the Pillar 1 budget

Small farms



- 10 ha \approx €2500
- 47% of farms but only **1.7% of UAA**

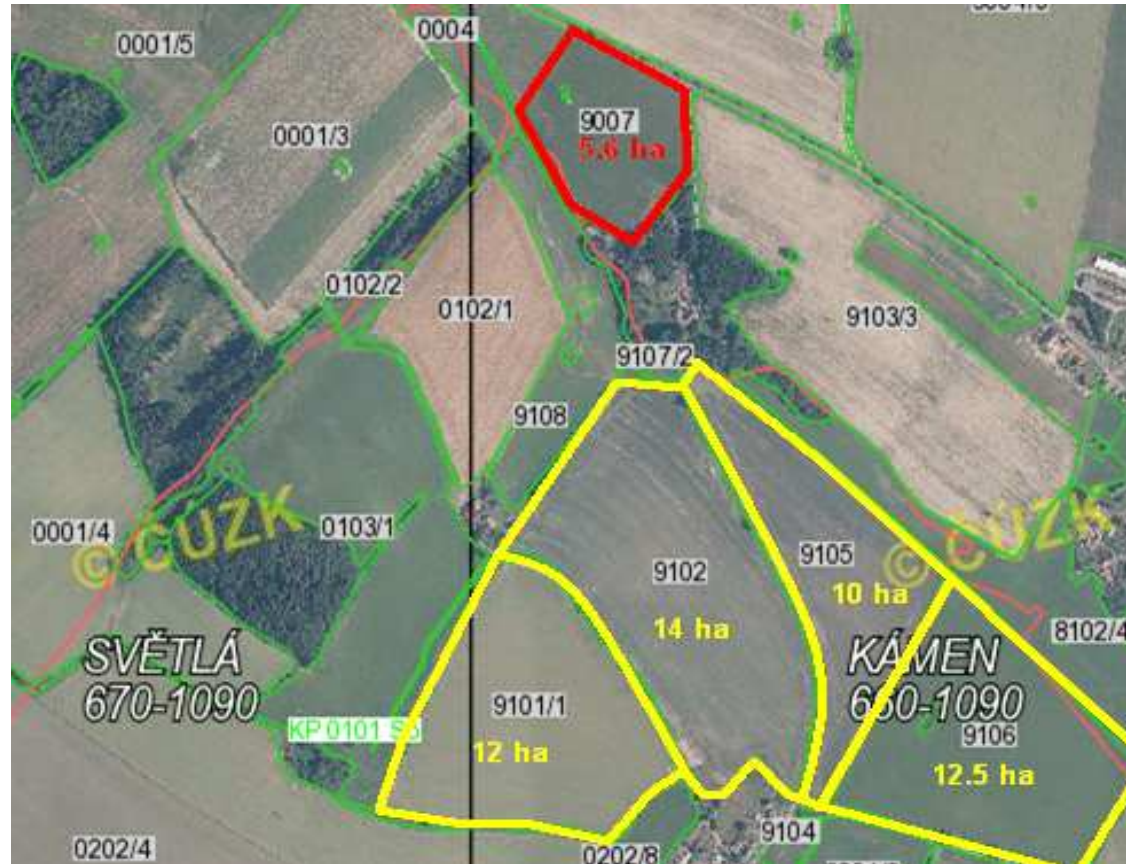
Greening

- Articles 29-33, COM(2011) 625/3, EC 2011)
- Particular focus on crop diversification
 - Obligatory for farms over 3 ha (actually 3.9 if the Small Farm Scheme applies)
 - 3 crops, each at least 5% and no more than 70%
- ? Cost-Benefit for farms 4-10 ha of arable land, and, farms with more than 90% of grasslands???

Costs

- About 50% of arable farms of 4-10 ha plant just one crop annually
 - However, they rotate crops multi-annually
 - Usually part-time farmers
- Costs of additional crops (a survey among farmers)
 - ↑ - less efficient use of machinery and services
 - ↑ - more complicated and expensive use of pesticides
 - ↑ - marketing costs

Benefits



- In many cases, small farms will even not have one block.
- All large farms except those on grasslands have three and more crops
- If 1000 ha – at least one crop on 333 ha and it can be on neighbour blocks

Arable land distribution

Group of farms	Number	Share on the number	Share on the arable land	Share on total UAA	Average size (ha)
1 - 4 ha	3 760	13%	0.34%	1.22%	2.3
4 - 10 ha	3 164	11%	0.82%	1.77%	6.6
4 - 100 ha, grassland over 90%	211	1%	0.15%	2.24%	17.64
> 4 ha, grassland over 90%	1472	5%	0.21%	2.90%	23.92

- The exemption of farms with 4-10 ha of arable land will affect less than 1% of arable land
- Exempting farms with more than 90% of grasslands from the crop diversification measure will represent only 0.21% arable land.

Conclusions - capping

- CAP 2007-2013 – modulation { more progressive after the health check}
 - Notion of a gradual decline of DP
 - Small exempted, very large charged more
- CAP 2014-2020 – DP fixed
 - Where do the thresholds come from?
 - Capping likely ineffective
 - when legal entities – DP (at least the basic income support) → entirely to profit

Conclusion

- Greening – increases costs for small farmers (4-10 ha) with little social benefit.
- Pillar 1 has increased a number of instruments
 - small farmers, young farmers (both obligatory)
 - however, small might have a different meaning in different farm structures

Conclusion

- A need for national adjustment → programming of Pillar 1
- It will bring missing objectives – at the national level
- Can be based on local (national) conditions
- Measures can be presented and launched in a consistent way

Invitation to
131st EAAE seminar and Agrarian Perspectives
XXI

“Innovations for Agricultural Competitiveness
and Sustainability of Rural Areas”

Prague 18-19 September 2012

<http://ap.pef.czu.cz/index.php?idScript=6>

100th anniversary of the agricultural economic
research institute

17 September 2012

<http://www.iaei.cz>